Notes to Financial Statements

1. CORPORATE INFORMATION

China Wireless Technologies Limited is a limited liability company incorporated in the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KYI-1111, Cayman Islands.

During the year, the Group was involved in providing wireless solutions and equipment for the wireless telecommunication market in Mainland China.

In the opinion of the Directors, the parent company and the ultimate holding company of the Group is Data Dreamland Holding Limited ("Data Dreamland"), which was incorporated in the British Virgin Islands (the "BVI").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Companies Ordinance. They have been prepared under the historical cost convention, except for certain buildings, which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of the subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date on which such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC)-Int 4	Determination whether an Arrangement contains a Lease

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The principal changes in accounting policies are as follows:

(a) HKAS 21 The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 December 2006 or 31 December 2005.

(b) HKAS 39 Financial Instruments: Recognition and Measurement

(i) Amendment for financial guarantee contracts

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 Revenue. The adoption of this amendment has had no material impact on these financial statements.

(ii) Amendment for the fair value option

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(iii) Amendment for cash flow hedge accounting of forecast intragroup transactions

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(c) HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as at 1 January 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 *Financial Reporting in Hyperinflationary Economies*
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC)-Int 12	Service Concession Arrangements

The HKAS 1 Amendment shall be applied for accounting period beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for accounting period beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for accounting period beginning on or after 1 January 2009. The standard requires disclosures that enable users of the financial statements to evaluate the nature and financial effects of the business activities in which the Group engages and the economic environments in which the Group operates.

HK(IFRIC)-Int 7, HK(IFRIC)-Int 8, HK(IFRIC)-Int 9, HK(IFRIC)-Int 10, HK(IFRIC)-Int 11 and HK(IFRIC)-Int 12 shall be applied for accounting periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. The Group expects that the adoption of the pronouncements above will have no impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

Valuations are performed frequently enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of the previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5%
Furniture, fixtures and office equipment	20%
Motor vehicles	20%
Leasehold improvements	20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and plant under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment property when completed and ready for use.

Investment property

An investment property is interest in buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such property is measured initially at cost, including transaction costs. Subsequent to initial recognition, investment property is stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of an investment property are included in the income statement in the year in which they arise.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investment property (continued)

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

For a transfer from an investment property to owner-occupied property or inventory, the deemed cost of property for subsequent accounting is its fair value at the date of change in use.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Patents and licences

Purchased patents and licences are stated at cost less impairment losses and are amortised on the straight-line basis over their estimated useful lives of two to five years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Product development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, an investment property and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets other than goodwill (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset only if there are revalued assets in the financial statements, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises only if there are revalued assets in the financial statements, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. When such financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs expected to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within six months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings, are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions (continued)

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants and subsidies

Government grants and subsidies from the government authorities are recognised at their fair value where there is reasonable assurance that the grants or subsidies will be received and all attaching conditions will be complied with. When the grant or subsidy relates to an expense item, it is recognised as income over the periods necessary to match the grant or subsidy on a systematic basis to the costs which it is intended to compensate. Where the grant or subsidy relates to an asset, the fair value is deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) from the sale of the realink PHS intelligent coverage system to the telecommunication equipment or solution distributors and the sale of wireless terminals to the telecommunication operators and wireless terminal distributors, upon delivery of the products;

(ii) from the rendering of services associated with goods sold, upon completion of such services;

(iii) rental income, on a time proportion basis over the lease terms;

(iv) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset;

(v) government grants and subsidies, when there is a reasonable assurance that the grants or subsidies will be received and all attaching conditions will be complied with; and

(vi) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external professionally qualified valuer using a binomial option pricing model, further details of which are given in note 30. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

The Group has adopted the transitional provisions of HKFRS 2 in respect of equity-settled awards and has applied HKFRS 2 only to equity-settled awards granted after 7 November 2002 that had not vested by 1 January 2005 and to those granted on or after 1 January 2005.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (continued)

Retirement benefits scheme

The Company, Yulong Infotech Inc. ("YII") and Digital Tech Inc. ("DTI") have not participated in any retirement benefits scheme since the dates of their incorporation.

The employees of Shenzhen Yulong Computer Telecommunication Scientific Co., Ltd. ("Shenzhen Yulong"), Coolpad Software Tech (Shenzhen) Co., Ltd. ("Coolpad Software") and Dongguan Yulong Computer Telecommunication Scientific Co., Ltd. ("Dongguan Yulong"), the Group's subsidiaries which operate in Mainland China, are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Dividends

Final dividends proposed by the Directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollars. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING ESTIMATE

Estimation uncertainty

The key assumption concerning the future and other key sources of estimation uncertainty at the balance sheet date, that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, is discussed below.

Research and development costs

Research and development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2006, the best estimate of the carrying amount of capitalised product development costs was HK$8,405,000 (2005: HK$11,238,000).

4. SEGMENT INFORMATION

Segment information is presented by way of the Group's primary segment reporting basis, by business segment. In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as the Group's customers and operations are mainly located in Mainland China.

The Group's operating businesses are structured and managed separately according to the nature of their operation and the products and services they provide. Each of the Group's business segment represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the wireless system solutions segment enables network operators to extend and enhance the transmission quality of their telecommunication networks and support their telecommunication services with management functions and user interface that can provide value-added services to subscribers; and

4. SEGMENT INFORMATION (CONTINUED)

(b) the wireless terminals segment engaged in the provision of smartphones, which integrate a mobile phone and a PDA with wireless applications like e-mail and internet browsing, and the provision of other mobile phones.

Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 December 2006 and 2005.

	2006 HK$'000	2005 HK$'000
Segment revenue:		
Wireless system solutions	**10,200**	28,405
Wireless terminals	**630,655**	325,590
Consolidated revenue	**640,855**	353,995
Segment net profit:		
Wireless system solutions	**2,336**	12,335
Wireless terminals	**93,202**	76,058
	95,538	88,393
Unallocated corporate expenses	**(32,399)**	(25,096)
Finance costs, net	**(9,455)**	(2,979)
Profit before tax	**53,684**	60,318
Tax	**—**	(9,442)
Profit for the year	**53,684**	50,876

4. SEGMENT INFORMATION (CONTINUED)

Business segments (continued)

	2006 HK$'000	2005 HK$'000
Segment assets:		
Wireless system solutions	20,608	50,881
Wireless terminals	687,194	324,097
Unallocated corporate assets	314,871	217,044
Total assets	1,022,673	592,022
Segment liabilities:		
Wireless system solutions	3,289	8,574
Wireless terminals	267,453	123,060
Unallocated corporate liabilities	320,267	146,692
Total liabilities	591,009	278,326
Capital expenditure:		
Wireless system solutions	—	—
Wireless terminals	23,238	25,956
Others	89,211	909
	112,449	26,865
Depreciation:		
Wireless system solutions	235	544
Wireless terminals	964	622
Others	3,631	1,697
	4,830	2,863
Amortisation:		
Wireless system solutions	—	—
Wireless terminals	10,476	5,179
Others	255	—
	10,731	5,179
Surplus on revaluation recognised directly in equity:		
Wireless system solutions	—	—
Wireless terminals	—	—
Others	7,039	4,630
	7,039	4,630

5. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents the net invoiced value of goods, after allowances for returns and trade discounts and net of sales tax and value-added tax. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue and other income is as follows:

	2006 HK$'000	2005 HK$'000
Revenue		
Sale of wireless system solutions and wireless terminals	640,855	353,995
Other income		
Rental income	—	233
Bank interest income	1,811	713
Government grants and subsidies*	14,426	11,191
Maintenance income	—	1,206
Sundry income	1,099	458
	17,336	13,801
	658,191	367,796

* The amount mainly represented value-added tax ("VAT") refund from a tax bureau and government grants received from a finance bureau to support the Group in research and development.

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2006 HK$'000	2005 HK$'000
Cost of inventories sold		400,859	228,534
Depreciation	14	4,830	2,863
Amortisation of patents and licences *	16	7,242	3,408
Recognition of prepaid land lease payments	15	255	—
Research and development costs:			
Product development costs amortised *	16	3,234	1,771
Current year expenditure		8,946	9,915
		12,180	11,686
Operating lease rental		1,616	175
Provision/write-back of provision for trade receivables		2,337	(2,027)
Loss on disposal of items of property, plant and equipment		943	85
Auditors' remuneration		1,637	1,500
Staff costs (including Directors' and senior executives' emoluments - note 8):			
Salaries and wages		60,962	21,793
Staff welfare expenses		1,736	1,146
Pension scheme contributions		3,062	1,473
Equity-settled share option expense		4,736	3,741
Total staff costs		70,496	28,153
Foreign exchange differences, net		78	(227)
Rental income		—	(233)
Bank interest income		(1,811)	(713)

* The amortisation of patents and licenses and product development costs for the year is included in "Administrative expenses" on the face of the consolidated income statement.

7. FINANCE COSTS

	Group 2006 HK$'000	Group 2005 HK$'000
Interest on:		
Bank loans wholly repayable within one year	6,056	2,979
Bank loans wholly repayable within five years	35	—
Bills payable	3,364	—
	9,455	2,979

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Fees	337	220
Other emoluments of executive Directors:		
Salaries, allowances and benefits in kind	1,178	661
Pension scheme contributions	5	4
	1,183	665
	1,520	885

8. DIRECTORS' REMUNERATION (CONTINUED)

(a) **Independent non-executive Directors**

The fees paid to the Group's independent non-executive Directors during the year were as follows:

	2006 HK$'000	2005 HK$'000
Mr. Xie Weixin	—	—
Dr. Huang Dazhan	120	120
Mr. Chan King Chung	100	100
Mr. Yang Xianzu	117	—
	337	220

There were no other emoluments payable to the independent non-executive Directors during the year (2005: Nil).

(b) **Executive Directors and non-executive Directors**

2006	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive Directors:				
Mr. Guo Deying	—	749	—	749
Mr. Jiang Chao	—	166	5	171
Non-executive Directors:				
Ms. Ma Dehui	—	—	—	—
Ms. Yang Xiao	—	263	—	263
	—	1,178	5	1,183

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) **Executive Directors and non-executive Directors (continued)**

2005	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total remuneration HK$'000
Executive Directors:				
Mr. Guo Deying	—	466	—	466
Mr. Jiang Chao	—	177	4	121
Non-executive Directors:				
Ms. Ma Dehui	—	—	—	—
Ms. Yang Xiao	—	78	—	78
	—	661	4	665

There was no arrangement under which a Director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2005: one) Directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2005: four) non-Director, highest paid employees for the year are as follows:

	Group 2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	**312**	546
Employee share option benefits	**150**	19
Pension scheme contributions	**5**	15
	467	580

The remuneration of all the non-Director, highest paid employees fell within the band of nil to HK$1,000,000.

During the year, share options were granted to a non-Director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 30 to the financial statements. The fair value of such options, which has been recognised to the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-Director, highest paid employees' remuneration disclosures.

10. TAX

No provision for Hong Kong profits tax has been made (2005: Nil) as the Group did not generate any assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2006 HK$'000	2005 HK$'000
Group:		
Current year provision		
Hong Kong	—	—
Mainland China	—	9,442
Total tax charge for the year	—	9,442

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the country in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate to the effective tax rate, is as follows:

	2006 HK$'000	2005 HK$'000
Profit before tax	53,684	60,318
Tax at the applicable tax rate (2006: 15%, 2005: 15%)	8,053	9,069
Income not subject to tax	—	(1,045)
Expenses not deductible for tax	—	1,418
Tax losses not recognised	4,649	—
Tax exemption/relief	(12,702)	—
Tax charge at the Group's effective rate (2006: Nil, 2005: 15.6%)	—	9,442

According to the Income Tax Law of the PRC for Foreign Investment Enterprises and Foreign Enterprises and as approved by relevant tax authorities, Shenzhen Yulong, a wholly-owned subsidiary of the Company operating in Mainland China, which is qualified as a high-technology enterprise and operates in Shenzhen, was exempted from the corporate income tax of the PRC for the two years starting from the first profitable year of operations and was entitled to a 50% relief from the corporate income tax of the PRC for the following six years. The first profitable year of operations of Shenzhen Yulong was 1996. An income tax rate of 15% was applied for the year ended 31 December 2006. No provision for taxation has been made as Shenzhen Yulong suffered a loss for the year.

10. TAX (CONTINUED)

Coolpad Software was set up on 7 March 2006 and commenced operations in September 2006. Coolpad Software also enjoyed an exemption from corporation income tax for the two years starting from the first profitable year of operations and was entitled to a 50% relief from the corporate income tax of the PRC for the following three years. Since the tax holiday of Coolpad Software commenced in 2006, no provision for income tax was needed in current year.

Dongguan Yulong was set up on 3 November 2006. There were no operations for Dongguan Yulong up to the end of December 2006.

11. LOSS ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2006 includes a loss of HK$744,000 (2005: a loss of HK$7,244,000) which has been dealt with in the financial statements of the Company (note 31).

12. DIVIDENDS

	Group	
	2006	2005
	HK$'000	HK$'000
Interim		
– HK$0.01 (2005: HK$0.01) per ordinary share	**4,982**	4,000
Proposed final dividend		
– HK$0.03 (2005: HK$0.02) per ordinary share	**14,957**	9,964
	19,939	13,964

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming AGM.

13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the weighted average number of ordinary shares in issue during the year.

The calculation of diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all the dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share amounts are based on:

	2006 HK$'000	2005 HK$'000
Earnings		
Profit attributable to ordinary equity holders of the Company used in the basic earnings per share calculation	**53,684**	50,876

Shares	Number of shares	
	2006	2005
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**497,449,732**	401,745,205
Effect of dilution - weighted average number of ordinary shares:		
Share options	**12,095,605**	3,616,624
	509,545,337	405,361,829

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improvements HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2006						
Cost or valuation:						
At beginning of year	31,021	—	18,942	3,763	—	53,726
Additions	—	2,219	14,130	400	77,081	93,830
Surplus on revaluation (note 31)	8,339	—	—	—	—	8,339
Write-back of revaluation	(1,675)	—	—	—	—	(1,675)
Disposals	(1,463)	—	(6,922)	(310)	—	(8,695)
Exchange realignment	1,107	—	674	133	—	1,914
At 31 December 2006	37,329	2,219	26,824	3,986	77,081	147,439
Accumulated depreciation:						
At beginning of year	786	—	11,216	2,629	—	14,631
Addition	1,810	37	2,832	151	—	4,830
Write-back of revaluation	(1,675)	—	—	—	—	(1,675)
Disposal	(348)	—	(5,434)	(20)	—	(5,802)
Exchange realignment	28	—	400	93	—	521
At 31 December 2006	601	37	9,014	2,853	—	12,505
Net book value:						
At 31 December 2006	36,728	2,182	17,810	1,133	77,081	134,934
At 31 December 2005	30,235	—	7,726	1,134	—	39,095
Analysis of cost or valuation:						
At cost	1,468	2,219	26,824	3,986	77,081	111,578
At valuation	35,861	—	—	—	—	35,861
	37,329	2,219	26,824	3,986	77,081	147,439

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Group (continued)

	Investment property HK$'000	Buildings HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
31 December 2005					
Cost or valuation:					
At beginning of year	2,137	26,336	16,133	3,059	47,665
Transfers	(2,185)	2,185	—	—	—
Additions	—	—	2,797	909	3,706
Surplus on revaluation (note 31)	—	5,447	—	—	5,447
Write-back of revaluation	—	(3,448)	—	—	(3,448)
Disposals	—	—	(351)	(274)	(625)
Exchange realignment	48	501	363	69	981
At 31 December 2005	—	31,021	18,942	3,763	53,726
Accumulated depreciation:					
At beginning of year	—	3,143	9,578	2,688	15,409
Additions	—	1,020	1,716	127	2,863
Write-back of revaluation	—	(3,448)	—	—	(3,448)
Disposals	—	—	(293)	(247)	(540)
Exchange realignment	—	71	215	61	347
At 31 December 2005	—	786	11,216	2,629	14,631
Net book value:					
At 31 December 2005	—	30,235	7,726	1,134	39,095
At 31 December 2004	2,137	23,193	6,555	371	32,256
Analysis of cost or valuation:					
At cost	—	2,150	18,942	3,763	24,855
At valuation	—	28,871	—	—	28,871
	—	31,021	18,942	3,763	53,726

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The office building of the Group is located in Shenzhen, the PRC. The Group's office building was valued on an open market, existing use basis at 31 December 2006 by Debenham Tie Leung, an independent firm of professionally qualified valuers, at HK$35,861,000 (31 December 2005: HK$28,871,000). A surplus of HK$8,339,000 (2005: HK$5,447,000) arising therefrom, which represented the excess of the revalued amount over the then carrying value of the building, on an individual asset basis, has been credited to the fixed asset revaluation reserve (note 31).

The Group's investment property, which represents an office apartment located in Shenzhen, the PRC, has been used by the Group as an office building since September 2005.

Had the Group's office building been stated at cost less accumulated depreciation, it would have been included in the financial statements at approximately HK$13,148,000 (2005: HK$13,509,000).

The dormitory of the Group is located in Taoyuan Village, Longzhu Avenue, Nansan District, Shenzhen, the PRC, with a historical net book value of HK$867,000 as at 31 December 2006.

The furniture, fixtures and office equipment and motor vehicles were stated at cost less accumulated depreciation.

15. PREPAID LAND LEASE PAYMENTS

	Group HK$'000
Carrying amount at 1 January 2006	—
Additions during the year	12,130
Recognised during the year	(255)
Carrying amount at 31 December 2006	11,875
Current portion included in prepayments, deposits and other receivables	(278)
Non-current portion	11,597

The leasehold land is held under a long term lease and is situated in Mainland China.

The leasehold land was pledged to secure a short term bank loan of HK$59,719,000 and a long term bank loan of HK$99,532,000 granted to the Group. For details of the Group's interest-bearing bank borrowings, please refer to note 27.

16. INTANGIBLE ASSETS

Group

	Product development costs HK$'000	Patents and licences HK$'000	Total HK$'000
31 December 2006			
Cost:			
At beginning of year	15,708	17,543	33,251
Additions	—	6,489	6,489
Exchange realignment	560	348	908
At 31 December 2006	16,268	24,380	40,648
Accumulated amortisation:			
At beginning of year	4,470	3,408	7,878
Provided during the year	3,234	7,242	10,476
Exchange realignment	159	80	239
At 31 December 2006	7,863	10,730	18,593
Net book value:			
At 31 December 2006	8,405	13,650	22,055
At 31 December 2005	11,238	14,135	25,373

16. INTANGIBLE ASSETS (CONTINUED)

Group (continued)

	Product development costs HK$'000	Patents and licences HK$'000	Total HK$'000
31 December 2005			
Cost:			
At beginning of year	9,870	—	9,870
Additions	5,616	17,543	23,159
Exchange realignment	222	—	222
At 31 December 2005	15,708	17,543	33,251
Accumulated amortisation:			
At beginning of year	2,641	—	2,641
Provided during the year	1,771	3,408	5,179
Exchange realignment	58	—	58
At 31 December 2005	4,470	3,408	7,878
Net book value:			
At 31 December 2005	11,238	14,135	25,373
At 31 December 2004	7,229	—	7,229

16. INTANGIBLE ASSETS (CONTINUED)

Company

	Patents and licences HK$'000
31 December 2006	
Cost:	
At beginning of year	7,780
Additions	—
At 31 December 2006	7,780
Accumulated amortisation:	
At beginning of year	1,167
Provided during the year	1,556
At 31 December 2006	2,723
Net book value:	
At 31 December 2006	5,057
At 31 December 2005	6,613

17. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'000
Unlisted shares, at cost	**44,991**	44,991

The amounts due from subsidiaries are approximate to their fair values.

The amounts due from subsidiaries included in the Company's current assets of HK$173,709,000 (2005: HK$117,442,000) are unsecured, interest-free and are repayable on demand or within one year.

Particulars of the subsidiaries are as follows:

Company	Place of incorporation/ registration and operations	Nominal value of issued and fully paid-up/registered share capital	Percentage of equity attributable to the Company: Direct	Percentage of equity attributable to the Company: Indirect	Principal activities
Yulong Infotech Inc.	BVI/Mainland China	Ordinary US$50,000	100	—	Investment holding
Digital Tech Inc.	BVI/Mainland China	Ordinary US$10	100	—	Investment holding
Shenzhen Yulong Computer Telecommunication Scientific Co., Ltd.	PRC/Mainland China	Paid-up and registered RMB240,600,000	—	100	Developing, manufacturing and operating wireless equipment, handheld communication terminals and mobile data business system
Coolpad Software Tech (Shenzhen) Co., Ltd.	PRC/Mainland China	Paid-up RMB1,541,700 Registered HK$10,000,000	—	100	Research and development and sale of mobile telecommunication, computer and multimedia technologies
Dongguan Yulong Computer Telecommunication Scientific Co., Ltd.	PRC/Mainland China	Paid-up Nil Registered RMB120,000,000	—	100	Research, development and design of handheld communication terminals and related technologies on telecommunication service platform

18. INVENTORIES

	Group 2006 HK$'000	Group 2005 HK$'000
Raw materials	79,983	30,022
Work in progress	147,035	8,524
Finished goods	21,288	26,053
	248,306	64,599

19. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally three months and may be extended to a longer credit term of four to six months for customers with long term business relationship and good repayment history. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date, is as follows:

	Group 2006 HK$'000	Group 2005 HK$'000
Within 3 months	154,148	93,346
4 to 6 months	8,799	14,648
7 to 12 months	1,739	2,824
1 to 2 years	6,670	1,180
More than 2 years	2,411	1,237
	173,767	113,235
Less: provision	(5,720)	(2,583)
	168,047	110,652

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Prepayments	**243,512**	171,667	**—**	—
Deposits and other receivables	**65,379**	21,752	**11**	—
	308,891	193,419	**11**	—

The balance of prepayments mainly represented prepayments to suppliers for the purchase of raw materials.

21. DUE TO A RELATED COMPANY

The balance due to a related company mainly represented a rental charge payable for warehouse facilities, which was unsecured, interest-free and had no fixed terms of repayment. The amount due to a related company was fully settled in March 2007.

22. AMOUNTS DUE FROM/TO DIRECTORS

Particulars of the amounts due from/to Directors, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Group

Amounts due from Directors

	31 December 2006	Maximum amount outstanding during 2006	1 January 2006
	HK$'000	HK$'000	HK$'000
Mr. Guo Deying	591	1,639	201
Mr. Jiang Chao	—	764	—
Ms. Yang Xiao	—	72	—
Total	591		201

22. AMOUNTS DUE FROM/TO DIRECTORS (CONTINUED)

Amounts due to Directors

	31 December 2006 HK$'000	Maximum amount outstanding during 2006 HK$'000	1 January 2006 HK$'000
Mr. Jiang Chao	—	164	164
Ms. Yang Xiao	17	20	—
	17		164

Company

Amounts due to Directors

	31 December 2006 HK$'000	Maximum amount outstanding during 2006 HK$'000	1 January 2006 HK$'000
Mr. Guo Deying	1,390	1,738	1,535
Mr. Jiang Chao	—	164	164
	1,390		1,699

The amounts due from Directors mainly represented advances granted to Directors for business trips. The amounts were unsecured, interest-free and were fully settled in March 2007.

The amounts due to Directors were unsecured, interest-free and were fully settled in March 2007.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**83,439**	99,995	**2,255**	8,507
Time deposits	**44,813**	58,688	**5,000**	—
	128,252	158,683	**7,255**	8,507
Less: Pledged time deposits:				
Pledged for bills payable	**(39,813)**	(49,077)	**—**	—
Pledged for a letter of credit	**(5,000)**	—	**(5,000)**	—
Cash and cash equivalents	**83,439**	109,606	**2,255**	8,507

As at 31 December 2006, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$120,874,000 (2005: HK$150,102,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents and the pledged deposits approximate to their fair values.

24. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within 3 months	**56,788**	24,994
4 to 6 months	**2,069**	349
7 to 12 months	**552**	540
More than 1 year	**1,680**	1,380
	61,089	27,263

The trade payables are non-interest-bearing and are normally settled on 30-day terms.

25. BILLS PAYABLE

An aged analysis of the bills payable as at the balance sheet date, based on the issue date, is as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 3 months	**46,150**	91,360	**5,121**	—
4 to 6 months	**39,813**	—	**—**	—
	85,963	91,360	**5,121**	—

26. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Other payables	**179,757**	99,635	**—**	—
Accruals	**9,339**	5,000	**85**	42
	189,096	104,635	**85**	42

Other payables and accruals are non-interest-bearing and have an average term of three months.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Notes	Group 2006 HK$'000	Group 2005 HK$'000
Current			
Bank loans, wholly repayable within one year (secured)	(a), (b)	65,788	28,832
Bank loans, wholly repayable within one year (unsecured)	(c), (d)	71,663	—
Other borrowings, wholly repayable within one year		—	2,884
		137,451	31,716
Non-current			
Bank loans (secured)	(e)	99,532	—
		236,983	31,716

	Note	Company 2006 HK$'000	Company 2005 HK$'000
Current			
Bank loans, wholly repayable within one year (secured)	(b)	6,069	—

Notes:

The bank loans as at 31 December 2006 represented the following borrowings.

(a) The Group's bank loan of HK$59,719,000 (RMB60,000,000), which is secured by the Group's land use right with a net book value of approximately HK$11,597,000 as at 31 December 2006, bears interest at an annual rate of 5.85% and is repayable within one year (Note 15).

(b) The Company's bank loan of HK$6,069,000 (US$780,000), which is secured by pledged time deposits of HK$5,000,000 under the Letter of Credit facility, bears interest at a rate of 1.75% over Hong Kong Interbank Offer Rate and is repayable within 120 days.

(c) The Group's bank loan of HK$59,719,000 (RMB60,000,000), which is guaranteed by the Company, bears interest at annual rates ranging from 5.40% to 5.80% and is repayable within 6 months.

(d) The Group's bank loan of HK$11,944,000 (RMB12,000,000) with an annual interest rate of 5.85% is guaranteed by Shenzhen Small and Medium Business Guarantee Centre which acts as a guarantor when the small and medium businesses need financial support from banks or other borrowers. Such loan is repayable within one year.

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

(e) The Group's non-current portion of bank loan amounting to HK$99,532,000 (RMB100,000,000), which is secured by the Group's land use right with a net book value of approximately HK$11,597,000 as at 31 December 2006, bears interest at a floating rate (note 15). The Group is subjected to an annual interest rate of 6.48% before the first repayable date which is 31 December 2008. Such bank loan is repayable in four instalments, i.e., RMB26,000,000 due on 31 December 2008, RMB28,000,000 due on 31 December 2009, RMB24,000,000 due on 31 December 2010 and RMB22,000,000 due on 31 December 2011. The interest rate for the above repayment terms will be adjusted based on the benchmark interest rate determined by the People's Bank of China.

The Directors estimate that the fair value of the Group's borrowings by discounting their future cash flows at the market rate approximate, to their carrying amounts.

28. DEFERRED TAX

The movements in deferred tax liabilities during the year are as follows:

Group

	Revaluation of buildings HK$'000
At 1 January 2006	2,035
Deferred tax debited to equity during the year (note 31)	1,300
Exchange differences	72
At 31 December 2006	3,407

Shenzhen Yulong had tax losses of HK$21,500,000 in current year. Deferred tax assets should be recognised for the unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilized. The management of the Group is not sure whether Shenzhen Yulong has the ability in generating future taxable profit to offset against the unused tax credits. Therefore, no deferred tax assets were recognised.

29. SHARE CAPITAL

	2006 HK$'000	2005 HK$'000
Authorised:		
1,000,000,000 (2005: 1,000,000,000) ordinary shares of HK$0.01 each	**10,000**	10,000
Issued and fully paid:		
498,560,000 (2005: 449,000,000) ordinary shares of HK$0.01 each	**4,986**	4,490

During the year, the movements in issued share capital were as follows:

(a) The subscription rights attached to 5,000,000 share options were exercised at the subscription price of HK$0.7 per share (note 30), resulting in the issue of 5,000,000 shares of HK$0.7 each for a total cash consideration, before expenses, of HK$3,500,000.

(b) The subscription rights attached to 4,560,000 share options were exercised at the subscription price of HK$0.87 per share (note 30), resulting in the issue of 4,560,000 shares of HK$0.87 each for a total cash consideration, before expenses, of HK$3,967,200.

(c) 40,000,000 shares were issued for cash at a subscription price of HK$1.22 per share for a total cash consideration, before expenses, of HK$48,800,000.

29. SHARE CAPITAL (CONTINUED)

A summary of the transactions during the year with reference to the above movements in the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK$'000	Share premium account (Note 31) HK$'000	Total HK$'000
At 1 January 2005	400,000,000	4,000	95,282	99,282
Share options exercised	9,000,000	90	6,210	6,300
New issue	40,000,000	400	41,600	42,000
Share issue expenses	—	—	(1,334)	(1,334)
At 31 December 2005 and 1 January 2006	449,000,000	4,490	141,758	146,248
Share options exercised (a), (b)	9,560,000	96	7,372	7,468
Share options exercised	—	—	1,859	1,859
New issue (c)	40,000,000	400	48,400	48,800
Share issue expenses	—	—	(2,768)	(2,768)
At 31 December 2006	498,560,000	4,986	196,621	201,607

Details of the Company's share option scheme and the share options issued under the scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

Pursuant to the share option scheme (the "Share Option Scheme") adopted by the Company on 21 November 2004, certain classes of participants (including employees, consultants, advisers, suppliers or customers of the Group) may be granted options to subscribe for the shares of the Company.

During the year, the Company granted options for the subscription of an aggregate of 14,752,000 shares pursuant to the terms of the Share Option Scheme, as follows:

On 27 July 2006, options for the subscription of 14,752,000 shares were granted to certain employees of the Group at an exercise price of HK$1.846 per share, which are exercisable in the manner set out detailed below:

(i) as for options to subscribe for 4,000,000 shares held by 2 grantees of options for 2,000,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for 500,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;

(b) in respect of options to subscribe for 500,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for 500,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for 500,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

30. SHARE OPTION SCHEME (CONTINUED)

(ii) as for options to subscribe for 1,488,000 shares held by 3 grantees of options for 496,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for 124,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;

(b) in respect of options to subscribe for 124,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for 124,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for 124,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(iii) as for options to subscribe for 2,496,000 shares held by 13 grantees of options for 192,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for 48,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;

(b) in respect of options to subscribe for 48,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for 48,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for 48,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

30. SHARE OPTION SCHEME (CONTINUED)

(iv) as for options to subscribe for 4,608,000 shares held by 48 grantees of options for 96,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for 24,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;

(b) in respect of options to subscribe for 24,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for 24,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for 24,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(v) as for options to subscribe for 960,000 shares held by 20 grantees of options for 48,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for 12,000 shares, at any time during the period commencing from the date of acceptance of the grant up to (but not including) the date falling on the fourth anniversary thereof;

(b) in respect of options to subscribe for 12,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for 12,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for 12,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fourth anniversary from the date of acceptance of the grant;

30. SHARE OPTION SCHEME (CONTINUED)

(vi) as for options to subscribe for 768,000 shares held by 4 grantees of options for 192,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for 48,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for 48,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for 48,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for 48,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(vii) as for options to subscribe for 384,000 shares held by 4 grantees of options for 96,000 shares each, such options are exercisable by each of the grantees:

(a) in respect of options to subscribe for 24,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for 24,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for 24,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for 24,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

30. SHARE OPTION SCHEME (CONTINUED)

(viii) as for options to subscribe for 48,000 shares held by 1 grantee, they are exercisable by:

(a) in respect of options to subscribe for 12,000 shares, at any time during the period commencing from the first anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(b) in respect of options to subscribe for 12,000 shares, at any time during the period commencing from the second anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(c) in respect of options to subscribe for 12,000 shares, at any time during the period commencing from the third anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

(d) in respect of options to subscribe for 12,000 shares, at any time during the period commencing from the fourth anniversary up to (but not including) the date falling on the fifth anniversary from the date of acceptance of the grant;

A consideration of HK$1.00 is payable by the grantee upon acceptance of the grant. The closing price per share at 26 July 2006, being the date immediately before the date the options were granted, was HK$1.83.

30. SHARE OPTION SCHEME (CONTINUED)

The following share options were outstanding under the Share Option Scheme during the year:

	Number of share options									Price of the Company's shares***		
Name or category of participant	At 1 January 2006	Granted during the year	Exercised during the year	Expired during the year	Forfeited during the year	At 31 December 2006	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$ per share	At grant date of options HK$ per share	Immediately before the exercise date HK$ per share	At exercise date of options HK$ per share
Employees												
In aggregate — granted on 2 June 2005	1,000,000	—	(1,000,000)	—	—	—	2-06-05	7-06-05 to 6-06-07	0.7	0.69	1.3	1.43
In aggregate — granted on 6 June 2005	16,000,000	—	—	—	—	16,000,000	6-06-05	7-06-05 to 6-06-08	0.7	0.7	—	—
In aggregate — granted on 20 June 2005	10,000,000	—	(4,560,000)	—	—	5,440,000	20-06-05	28-06-05 to 27-06-09	0.87	0.87	1.43–1.77	1.51–1.75
In aggregate — granted on 27 July 2006	—	13,552,000	—	—	—	13,552,000	27-07-06	27-07-06 to 26-07-10	1.846	1.83	—	—
In aggregate — granted on 27 July 2006	—	1,200,000	—	—	—	1,200,000	27-07-06	27-07-07 to 26-07-11	1.846	1.83	—	—
Subtotal	27,000,000	14,752,000	(5,560,000)	—	—	36,192,000						
Business consultants												
Individual consultants	4,000,000	—	(4,000,000)	—	—	—	6-06-05	7-06-05 to 6-06-08	0.7	0.7	1.51–1.58	1.46–1.52
Total	31,000,000	14,752,000	(9,560,000)	—	—	36,192,000						

Notes to the reconciliation of share options outstanding during the year:

* The vesting period of the share options is from the date of grant until the commencement of the exercise period.

** The exercise price of the share options is the amount that the employee is required to pay to obtain each share under the option.

*** The price of the Company's shares disclosed as at the date of grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of grant of the options. The price of the Company's shares disclosed immediately before the exercise date of the share options is the weighted average of the Stock Exchange closing prices immediately before the dates on which the options were exercised over all of the exercises of options within the disclosure line.

The fair value of the share options granted during the year was HK$9,528,000 of which the Group recognised a share option expense of HK$4,736,000 during the year ended 31 December 2006.

30. SHARE OPTION SCHEME (CONTINUED)

The fair value of the equity-settled share options granted during the year was calculated by an external professionally qualified valuer, LCH (Asia-Pacific) Surveyors Limited, at HK$9,528,000 using the binomial option pricing model as at the date of grant of the options, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the year ended 31 December 2006:

Dividend yield (HK$)	0.01 – 0.02
Expected volatility (%)	56.94
Risk-free interest rate (%)	4.33 – 4.51
Expected life of option (year)	2 – 4
Exercise price (HK$)	1.846
Share price at grant date (HK$)	1.83

The expected life of the options is based on the historical data and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

The 9,560,000 share options exercised during the year resulted in the issue of 9,560,000 ordinary shares of the Company and new share capital of HK$95,600 and share premium of HK$9,231,000 (before issue expenses), as further detailed in note 29 to the financial statements.

At the balance sheet date, the Company had 36,192,000 share options outstanding under the Share Option Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 36,192,000 additional ordinary shares of the Company and additional share capital of HK$361,920 and share premium of HK$42,803,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 36,192,000 share options outstanding under the Share Option Scheme, which represented approximately 7.26% of the Company's shares in issue as at that date.

31. RESERVES

Group

	Notes	Share premium account (Note (a)) HK$'000	Contributed surplus (Notes (a), (b)) HK$'000	Revaluation reserve HK$'000	Statutory reserve (Note (c)) HK$'000	Share option reserve HK$'000	Exchange fluctuation reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2005		95,282	390	6,749	2,214	—	—	98,375	203,010
Issue of shares	29	47,810	—	—	—	—	—	—	47,810
Share issue expenses	29	(1,334)	—	—	—	—	—	—	(1,334)
Surplus on revaluation of buildings	14	—	—	5,447	—	—	—	—	5,447
Deferred tax on revaluation reserve		—	—	(817)	—	—	—	—	(817)
Equity-settled share option arrangements		—	—	—	—	3,741	—	—	3,741
Profit for the year		—	—	—	—	—	—	50,876	50,876
Exchange realignment		—	—	—	—	—	4,473	—	4,473
Statutory reserves		—	—	—	762	—	—	(762)	—
Interim 2005 dividend	12	—	—	—	—	—	—	(4,000)	(4,000)
Proposed final 2005 dividend	12	—	—	—	—	—	—	(9,964)	(9,964)
At 31 December 2005 and 1 January 2006		141,758	390	11,379	2,976	3,741	4,473	134,525	299,242
Issue of shares	29	55,772	—	—	—	—	—	—	55,772
Share issue expenses	29	(2,768)	—	—	—	—	—	—	(2,768)
Share options exercised	29	1,859	—	—	—	(1,859)	—	—	—
Surplus on revaluation of buildings	14	—	—	8,339	—	—	—	—	8,339
Deferred tax on revaluation reserve	28	—	—	(1,300)	—	—	—	—	(1,300)
Equity-settled share option arrangements		—	—	—	—	4,736	—	—	4,736
Profit for the year		—	—	—	—	—	—	53,684	53,684
Exchange realignment		—	—	—	—	—	13,955	—	13,955
Statutory reserves		—	—	—	3,513	—	—	(3,513)	—
Interim 2006 dividend	12	—	—	—	—	—	—	(4,982)	(4,982)
Proposed final 2006 dividend	12	—	—	—	—	—	—	(14,957)	(14,957)
At 31 December 2006		**196,621**	**390**	**18,418**	**6,489**	**6,618**	**18,428**	**164,757**	**411,721**

31. RESERVES (CONTINUED)

Company

	Notes	Share premium account (Note (a)) HK$'000	Contributed surplus (Notes (a), (b)) HK$'000	Share option reserves HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2005		95,282	44,992	—	—	(8,313)	131,961
Issue of shares	29	47,810	—	—	—	—	47,810
Share issue expenses	29	(1,334)	—	—	—	—	(1,334)
Equity-settled share option arrangements		—	—	3,741	—	—	3,741
Loss for the year		—	—	—	—	(7,244)	(7,244)
Exchange realignment		—	—	—	388	—	388
Interim 2005 dividend	12	—	—	—	—	(4,000)	(4,000)
Proposed final 2005 dividend	12	—	—	—	—	(9,964)	(9,964)
At 31 December 2005 and 1 January 2006		141,758	44,992	3,741	388	(29,521)	161,358
Issue of shares	29	55,772	—	—	—	—	55,772
Share issue expenses	29	(2,768)	—	—	—	—	(2,768)
Share options exercised	29	1,859	—	(1,859)	—	—	—
Equity-settled share option arrangements		—	—	4,736	—	—	4,736
Loss for the year		—	—	—	—	(744)	(744)
Exchange realignment		—	—	—	—	—	—
Interim 2006 dividend	12	—	—	—	—	(4,982)	(4,982)
Proposed final 2006 dividend	12	—	—	—	—	(14,957)	(14,957)
At 31 December 2006		**196,621**	**44,992**	**6,618**	**388**	**(50,204)**	**198,415**

Notes:

(a) Under the Companies Law (2001 Second Revision) of the Cayman Islands, the share premium account and contributed surplus are distributable to the shareholders of the Company, provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business.

(b) The contributed surplus of the Group represents the difference between the aggregate of the nominal value of the paid-up capital of the subsidiaries acquired pursuant to the Group Reorganisation on 31 July 2003 over the nominal value of the Company's shares issued in exchange therefore. The contributed surplus of the Company represents the excess of the then consolidated net assets of the subsidiaries acquired pursuant to the Group Reorganisation, over the nominal value of the Company's shares issued in exchange therefore.

(c) In accordance with the PRC regulations, the PRC subsidiaries are required to allocate 10% of their profit after tax, as determined under the PRC accounting regulations, to the statutory reserve until such reserve reaches 50% of the registered capital of the PRC subsidiaries. Part of the statutory reserve may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

32. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its warehouse premises and office building premises under operating lease arrangements for lease terms ranging from two to five years. The total future minimum lease payments under non-cancellable operating leases committed at the respective balance sheet dates to be made by the Group were as follows:

	2006 HK$'000	2005 HK$'000
Within one year	3,269	106
In the second to fifth years, inclusive	11,060	26
Over five years	—	—
	14,329	132

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the balance sheet date:

	Group 2006 HK$'000	 2005 HK$'000
Contracted, but not provided for:		
Patents and licences	66,168	77,536
Capital injection	120,000	—
Plant expansion	36,979	—
	223,147	77,536

As at the balance sheet date, the Company had no significant lease and capital commitments.

34. RELATED PARTY TRANSACTIONS AND BALANCES

(a) In addition to the transactions detailed elsewhere in the financial statements, the Group had the following transaction with a related party during the year:

	2006 HK$'000	2005 HK$'000
Rental expense to a related company	110	106

During the year, Shenzhen Yulong rented the warehouse facilities of Shenzhen Space Star Network Company Limited ("Space Star") at an annual charge of HK$110,000. The rental charge was made according to the market rates.

(b) Outstanding balance with a related party:

As disclosed in the consolidated balance sheet and in note 21, the Group had an outstanding payable to Space Star of HK$110,000 (2005: HK$106,000). The payable is unsecured, interest-free and has no fixed terms of repayment.

(c) Compensation of key management personnel of the Group:

	2006 HK$'000	2005 HK$'000
Salaries, allowances and benefits in kind	2,424	1,544
Pension scheme contributions	31	23
Employee share option benefits	922	19
Total compensation paid to key management personnel	3,377	1,586

Further details of Directors' emoluments are included in note 8 to the financial statements.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank and other borrowings, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

It is, and has been, throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The Board reviews and agrees policies for managing these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate. The interest rates and terms of repayment of the Group's loans are disclosed in note 27.

Foreign currency risk

As the Group's investment operations are located in Mainland China, the Group's balance sheet can be affected significantly by the movements in the HK$/RMB exchange rate. Since the exchange rates did not fluctuate significantly in prior years, the Group did not seek to hedge this exposure.

The Group has no transactional currency exposure as all sales and purchases are denominated in RMB, the functional currency of Shenzhen Yulong and Coolpad Software, which are the sales-generating units of the Group.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through the ability to close-out market positions. In the opinion of the Directors of the Company, the Group does not have any significant liquidity risk exposure.

36. EVENT APTER THE BALANCE SHEET DATE

(a) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

(b) The Directors proposed to issue 1 bonus share for 1 ordinary share at par value of HK$0.01 each held by the existing shareholders, which is subject to the approval of the Company's shareholders at the forthcoming AGM.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board on 11 April 2007.